

**BEFORE THE
VIRGIN ISLANDS PUBLIC SERVICES COMMISSION
DOCKET NO. 678**

**PETITION OF VIRGIN ISLANDS WATER AND POWER AUTHORITY
FOR PERMANENT BASE RATE INCREASE
FOR THE ELECTRIC SYSTEM ELECTRIC SYSTEM RATE RELIEF**

**INTERIM STATUS REPORT OF
GEORGETOWN CONSULTING GROUP, INC.**

July 26, 2019

PSC Staff Interim Status Report
Virgin Islands Water and Power Authority
Electric System Rate Relief
June 25, 2019

Background

Petition for Permanent Base Rate Relief for the Electric System

On May 17, 2019, the Virgin Islands Water and Power Authority (“WAPA”) submitted a petition to the Virgin Islands Public Service Commission (“PSC or Commission”) for Electric System Rate Relief for changes in base rates to be applied on all bills rendered on or after July 1, 2019. A Request for Expedited Action with supporting testimony and documents was filed requesting an adjustment to base rates to provide an additional \$55.1 million in revenue to meet cost of operations, meet certain capital requirements and provide for debt service coverage for WAPA’s outstanding bonds and other liabilities.

Primary reasons cited for the request include:

- WAPA is in seriously financial difficulty due in part to inadequate base rates which have not changed since 2016.
- Significant damage to the VI from Hurricanes Irma and Maria has resulted in a decline of 18% in Customer kWhr sales since the hurricanes.
- Despite significant efforts by WAPA to control costs, current rates are inadequate.
 - Austerity budget adopted representing a reduction in the operating budget of \$15.5 million
 - Reduction of staff positions by 17.5% and lower personnel costs by 18.3%
- For the test year, current base rates only provide a .67 Debt Service Coverage of Senior and Subordinate bonds, which have a combined minimum requirement of 1.25. and a Total Debt Service Coverage of .32, which is below the minimum requirement of 1.0.

In support of its petition for an increase in base rates, WAPA has requested the following:

- Seeking change in base rates to generate an additional \$55 million. WAPA’s FY 2020 Projections indicate a shortfall of \$43.2 million to meet operation expenses and debt service, plus need for an additional \$11.9 million for short term capital investments.
- Major unknowns for the FY 2020 budget include the rate of economic recovery in the Territory, the pace of adoption by customers of distributed generation, and the ability of the Authority to attract existing and new electric users to connect to the electric grid.
- Major change includes proposed decoupling of sales from revenue through an annual sales volume true-up mechanism. This mechanism would seek to secure WAPA’s revenues by permitting automatic increases in rates if sales decline. This would be applied as a rider in each subsequent year.

- The proposed increase in rates results in coverages that are presented in a table on page 9 for the following:
 - Senior and Subordinate DSC 2.45
 - Total DSC 1.19
- Debt service amount increases from \$60.1 million in 2018 to \$73.6 million in 2022. We do believe that does not include either \$1.5M or \$2.5M per month for VITOL.
- WAPA has proposed to apply the increase across the board for all rate classes, with the exception for miscellaneous charges such as pole setting for streetlights, etc.
- WAPA has also proposed a Stand-by Rate, the calculation of which is provided as Exhibit WAPA-PRMG-3a.
- Finally, WAPA is also proposing an annual true-up rider that will provide for the uncertainty of growth and electricity sales going into the future. In essence this rider will calculate the base rate revenues received based on actual sales, and any over or under collection would be added or subtracted as a rider to the requested base rate.
- Impact on customer bills are as follows:
 - Residential bills increase approximately 24%
 - Commercial 28%
 - Large Power 24-26%.

Based upon projected kilowatt hour sales, the average cost per kWhr equates to almost 52 cents, including LEAC revenues. PSC Staff is currently in the process of analyzing this filing and working with the assigned Administrative Law Judge to determine a schedule for hearing the Base Rate Case.

Emergency Rate Request to be Submitted

PSC Staff and WAPA have been engaged in trying to work out a schedule with the assistance of the appointed Hearing Examiner. WAPA initially proposed a schedule that brought the matter to a Commission decision by August 31, 2019 but during this discussion, WAPA informed PSC Staff that it had received a notice of default letter from its propane supplier VITOL, and need action more quickly, potentially as early as July 31, 2019. Currently WAPA has indicated that it will ask for a Commission decision to approve their “proposal” at the July 31, 2019 PSC Meeting.

The demands made by VITOL to continue supplying propane are substantial:

- Immediate payment of \$20 million towards accrued infrastructure costs
- \$2.6M - Infrastructure payments to be made monthly
- \$1.5M additional monthly payment beginning August, to reduce arrears (increased to \$2.5M beginning in January 2020)
- All propane deliveries to be pre-paid until all arrears and interest are paid in full.

When WAPA submits its Emergency Rate Request it is expected they will provide an analysis – subject to verification by Staff – that will show that losing propane would drive the cost of fuel up by an additional 13.2 ¢/kWh. When presented we believe that WAPA will be assuming that with the stoppage of propane the payments for the infrastructure and O&M fee due VITOL will not be made. This reduces WAPA payments by 7.24 ¢/kWh. This still results in a net increase in the estimated costs to WAPA and WAPA’s ratepayers if passed through of 5.96 ¢/kWh. This is due to having to run WAPA’s legacy generating equipment since the new leased Aggreko facilities on STX and the new Wartsila’s on STT are propane only units. The requirement of continue lease payments and debt service on these units will continue. If these new units were dual-fueled the cost would be substantially less for losing propane.

Based upon a presentation recently shared with PSC Staff WAPA has suggested an amended base rate “proposal”¹ that reduces the initial request. It is anticipated that WAPA will make an emergency rate filing that incorporates the following considerations:

- Reduce the rate increase to remove rate funded capital items of \$13.8M.² This reduces the rate request to \$41.3M and the adjusted starting point for the requested increase to 7.67 ¢/kWh from approximately 10.5 ¢/kWh.
- WAPA then makes several voluntary adjustments to reduce the amount of the requested increase. In summary the adjustments, which have been accepted at face value for discussion purposes, are as follows:³
 - Reduce Major Maintenance⁴ (1.71 ¢/kWh)
 - Wartsila (fund via fuel tax)⁵ (0.22 ¢/kWh)
 - 2003A Refunding (AMBAC)⁶ (0.38 ¢/kWh)
 - Senior Debt Adjustment⁷ (0.68 ¢/kWh)
 - Reserve (\$5 million)⁸ 1.00 ¢/kWh
 - Net Proposed Reduction (2.00 ¢/kWh)
 - Adjusted Base Rate Request 5.68 ¢/kWh
 - Lease costs removed when base rates are implemented⁹ (3.08 ¢/kWh)
 - WAPA proposed decrease in LEAC (no deferred fuel)¹⁰ (2.57 ¢/kWh)
 - Net Increase in total Rates 0.03 ¢/kWh

This proposal would result in rates at an average of 42.97 cent/kwh, while the current rate average is 43.94 cents per kwh – a 0.03 ¢/kWh differential.

¹ We are unaware if this is a binding proposal offered by WAPA as it an unorthodox approach.

² No discussion on the impact of such a proposal.

³ These adjustments have not been subjected to any due diligence analysis by the PSC staff.

⁴ Ditto

⁵ No narrative explanation.

⁶ Ditto

⁷ Ditto

⁸ Ditto

⁹ Existing Commission requirement.

¹⁰ No supporting narrative or computations

PSC staff points out the following:

- This emergency rate proposal only addresses the Vitol payment issues and the ability to keep propane supplied to all units capable of burning propane. The proposal elevates the status of Vitol as contrasted to all other creditors and does nothing to address other liabilities.
- All costs and rates would have normally been reviewed, analyzed and justified in the course of the base rate case. What WAPA has “proposed” here has not been subject to any such review, and PSC Staff can make no assurances as to the propriety of the numbers presented.
- While WAPA has experienced staffing cost reductions, many dating back to 2014, it has not proposed any staffing cost reductions as part of this emergency request.
- While the number of WAPA owned generating units has declined by nearly half, WAPA has not identified any reduction in its operations and maintenance budget.
- While the assumed impact is an increase in total rates of only 0.03 ¢/kWh, it nonetheless includes a permanent base rate increase of 2.60 ¢/kWh.
- With new efficient propane fuel generators coming online LEAC costs should further decrease as these new generators will use less fuel and lower cost fuel. While there is no certainty propane futures through 2022 due to increased supplies resulting from increased fracking are expected to remain at these lower price levels.
- The proposal can only be view as kicking the can down the road. It does nothing to address WAPA liquidity including regular bank overdrafts, a lack of cash reserves, payables to fuel suppliers, vendor payments, pension and OPEB liabilities and capital needs. It is unlikely that rates can be increased to fund these requirements.

As stated, we just received this presentation and have not analyzed the appropriateness or the amount of the proposed adjustments. Staff will be meeting with WAPA next week to further evaluate the numbers and reasonableness of their proposed approach.

As for VITOL, WAPA claims that it is working with the Governor and will be able to meet the VITOL demand for a \$20 million payment this week, but is requesting the adjustment in base rates to be able to have sufficient cash flow to pay the additional monthly \$1.5 million being requested by VITOL towards the outstanding arrears.

Finally, WAPA suggests that in a time horizon of December 2020, it can reduce the overall cost from 42.97 ¢/kWh to 33.88 ¢/kWh through the possibility of accomplishing the following transactions:

- | | |
|--|--------------|
| • Potential refinancing VITOL through a third party | (1.79 ¢/kWh) |
| • LEAC reduction from additional Wartsila units & Renewables | (1.31 ¢/kWh) |
| • Termination of the APR leases and misc. savings | (1.99 ¢/kWh) |

Obviously, without an actual definitive filing and the limited time available no analysis is possible. Additional information and time is required.

Staff has pointed out that this proposal is not on the record and accordingly, WAPA needs to submit a petition to the Commission requesting what it has proposed in the above discussion. Without a definitive proposal on the record Staff is unable to support the hypothetical analysis presented herein. WAPA's failure to do that places the Commission in a position of taking action without any supporting documentation.

A set of recommendations will be forthcoming. The PSC staff will follow the directions of the Commission provided at the scheduled July 31, 2019 Meeting.